

Outsourcing – A Delicate Balance

By Bob Lavigna, CPS Human Resources Services

As we all know, there is a great deal of discussion and even controversy right now about outsourcing. Around the world, public and private organizations are outsourcing more and more functions. That's why, according to a recent Yankee Group research report, global spending on HR outsourcing alone is expected to grow to \$80 billion in the next five years.

Private sector companies have been outsourcing for about 20 years. Large companies such as Motorola, Goodyear, General Motors, AT&T, IBM, and the Bank of America, among others, have outsourced functions such as information systems, security, accounting, payroll, document management, recruiting and selection, call centers, travel and relocation, benefits administration, employee assistance programs and retirement programs.

In the public sector, large organizations that have outsourced major functions include federal government agencies such as the U.S. Transportation Security Administration (TSA), the Department of Interior, and the Naval Reserve. State and locals governments that have outsourced major activities include the county of San Diego, the state of Florida, and the Texas Health and Human Services Commission. Even non-U.S. government jurisdictions such as the city of Copenhagen are outsourcing.

In our business — public sector HR — the role of outsourcing is also expanding. In my job as Senior Manager with CPS Human Resource Services (CPS), I have been involved in many outsourcing projects. These range from a very large project to recruit and assess TSA employees across the nation, to small and very focused projects to write personnel manuals, conduct executive searches, deliver training, perform business process and re-engineering reviews, conduct classification and compensation studies, and implement HR best practices.

Like most controversial subjects, there is a lot of misinformation and misunderstanding about outsourcing. Here's my take on some of the key outsourcing issues.

Offshoring is a small percentage of all outsourcing. Outsourcing simply means using an outside organization to perform work, usually for non-core business functions. Outsourcing is designed to save money, bring in expertise outside the organization's core competencies, improve service delivery, or enable HR to focus on strategic (and not transactional) functions.

Often, when we read or hear about outsourcing in the news (especially during the election season), outsourcing is defined as exporting U.S. jobs overseas. While estimates are that up to 400,000 U.S. jobs will be moved offshore in 2004 (Forrester Research, Inc.), this accounts for only a small percentage of all outsourcing. For example, total revenue for the professional, scientific and technical services sector in the U.S. now approaches \$1 trillion (U.S. Census Bureau). This sector consists of businesses that provide professional, scientific and technical services for other organizations (in other words, they are outsourcing providers). So, this \$1 trillion represents an enormous number of jobs that are outsourced, but not offshored. In the CPS outsourcing work with TSA, for example, we do not offshore any of this work.

Most organizations (public and private, large and small) outsource.

While the largest outsourced projects attract the most attention, the reality is that outsourcing goes far beyond these marquee projects. In the public sector, any time a jurisdiction employs an outside person or organization to do work — conduct a classification study, deliver training, post a job vacancy on a Web site, advertise a job in a newspaper classified section, design and install an information system, provide advice on an important issue, or even facilitate a meeting — that's outsourcing. If an organization employs an outside counsel for legal support and advice, that's also outsourcing. No organization today, particularly in the public sector, has the resources to maintain the kind of talent and expertise it needs to do everything well. In fact, in this context, outsourcing is not at all new, and it's certainly not unique to large organizations.

Outsourcing shouldn't mean giving up control, but it is a delicate balance.

In an effective outsourcing arrangement, the organization doing the outsourcing must retain control. Most public organizations can delegate or outsource authority, but can't delegate responsibility. Otherwise, outsourcing can lead to abrogation.

On the other hand, outsourcing can't work efficiently if the agency tries to micromanage the outsourced process. Outsourcing must be a cooperative effort between the agency and the outsourcing provider.

While this balance is especially important in large outsourced projects, it's also critical in smaller and more discrete activities. Each project is different, and the relationships and approaches must be tailored to the organization's needs, culture, structure, political environment, labor relations, and resources. Even in projects that use standard methodologies (e.g., classification studies, executive searches, and process re-engineering studies), an effective outsourcing provider tailors its approach to the specific needs of the client. Large, ongoing projects require a more dynamic and evolving relationship. In the CPS outsourcing work with TSA, for example, we learn something new almost every day and we are constantly adjusting to the needs of TSA and the traveling public.

Outsourcing doesn't have to be expensive, and should be cost-efficient.

The large, multimillion dollar outsourcing projects get the most attention. However, much of the day-to-day outsourced work in government, and government HR, is done quietly, cost-efficiently, and affordably. In fact, many projects, including small ones, are outsourced specifically because it's more cost-effective to bring in outside resources to do a specific, time-limited project than it is to hire that talent and do it in-house.

So what are the take-aways?

- Outsourcing is usually not offshoring;
- Most organizations already outsource work;
- Outsourcing shouldn't mean giving up control;
- The relationship with the outsourcing provider is a delicate balance; and
- Outsourcing done right is cost-effective.

As with most things worth doing well, there is no one-size-fits-all approach that works for every outsourcing project. Instead, each project, large or small, must be carefully designed, implemented, evaluated and monitored. Outsourcing will probably continue to be controversial, but it's been around a long time and is here to stay. The challenge is to do it right and do it well.

Bob Lavigna is senior manager for client services at CPS Human Resources Services in Madison, Wis., and past president of IPMA-HR.

Reprinted with permission from Monster Government Solutions' InBrief newsletter. —

LEADERSHIP CURRICULUM

- Essential Skills of Leadership
- Effective Discipline
- Improving Work Habits
- Delegating Effectively
- Managing Complaints
- Resolving Conflicts
- Essential Skills of Communicating
- Developing Performance Goals & Standards
- Coaching Job Skills
- Providing Performance Feedback
- Communicating Up
- Supporting Change

Delivery Options Classroom and/or Online

For a PowerPoint Presentation and Proposal please call Warren Wright at 800-223-6567 or email to warrenwright@cox.net

SPECIAL PRICING FOR GOVERNMENT AND EDUCATION.
Administrator kits and workbooks.